

**NOMINATION OF CAPTAIN WILLIAM G. SCHUBERT  
TO BE ADMINISTRATOR OF THE MARITIME  
ADMINISTRATION AT THE DEPARTMENT OF  
TRANSPORTATION**

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**HEARING**

BEFORE THE

**COMMITTEE ON COMMERCE,  
SCIENCE, AND TRANSPORTATION  
UNITED STATES SENATE**

**ONE HUNDRED SEVENTH CONGRESS**

**FIRST SESSION**

**NOVEMBER 15, 2001**

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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**THURSDAY, NOVEMBER 15, 2001**

U.S. SENATE,  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:02 a.m. in room SR-253, Russell Senate Office Building, Hon. John B. Breaux presiding.

**OPENING STATEMENT OF HON. JOHN B. BREAUX,  
U.S. SENATOR FROM LOUISIANA**

Senator BREAUX. The Committee will please come to order. Good morning, everyone.

Senator Hutchison from Texas was going to be here, Captain, to present you, but was unavoidably not able to do it, with the aviation security conference going on, which is why a number of our Members happen to be absent, because we are trying to get that important legislation out before we leave for the recess.

This morning we are here to consider the nominee for Maritime Administrator, Captain William Schubert. I appreciate very much that the Administration has nominated an individual who has actual experience in this particular area dealing with the merchant marine. Captain Schubert has previously worked at the Maritime Administration and brings a great deal of knowledge and experience in that very important field. It is very difficult to come into this type of a job without having experience. We are very fortunate to have someone who has actually worked there. You helped facilitate the sealift operation during the Persian Gulf effort, which was very difficult, indeed.

I strongly support your confirmation and supported the nomination, as well. I think it is important that we get you in place as soon as possible and hope we can take this to the floor this week.

I understand you are joined today by your wife Gail.

Gail, are you here? Thank you very much for being here and letting him do this job again. Also by your parents, apparently, Earl and Nancy. Thank you for your contribution in allowing Earl to serve.

He is a 1968 graduate—1965?

Mr. SCHUBERT. 1969.

Senator BREAU. 1969 graduate of King's Point Merchant Marine Academy and we will not hold it against you, but your brother-in-law is one of our former colleagues, Senator Bill Brock. Bill, glad to see you back in these chambers.

My home state of Louisiana obviously is one that is very concerned about the merchant marine, the maritime, and what we do at the Maritime Administration. We are obviously very heavily dependent on maritime industry and maritime transportation in general. It is not something that just benefits Louisiana. It benefits the entire country. Louisiana is the bottom of the funnel through which two-thirds of this nation drains all of their waterways and obviously that creates some problems, but it also creates enormous economic benefits for the state and also for the nation.

We live near and are on the waterways and the Gulf of Mexico, so we certainly in our areas understand the importance of ports, understand the importance of a strong maritime industry, and know quite well in my state, and I would hope the rest of the Congress feels the same, that this is something the government needs to be involved in.

We cannot just say to the U.S. maritime industry good luck, pat you on the back, and hope you are successful, because, in fact, our industry has to compete not just with fellow American companies, but we have to compete throughout the world. Many times we find our industries having to compete, not with other companies alone, but other companies who work with their governments very closely and in many cases are partially owned by their governments.

So it is a very unlevel competitive field that our industry must face as we ply the oceans of the world. I think that there are many of us that recognize that, while we are free enterprise supporters, that we have to recognize that you have to deal with the hand that you have been dealt, and until all the world operates as we do that there is a very legitimate role for the U.S. government in helping to guarantee that we remain strong as a maritime nation.

That is one of the challenges, Captain, that you are going to be facing. This is not an easy job. The Congress does not have a 100 percent view of the importance of some of the things the Maritime Administration does. In fact, some of the folks in the Administration do not like some of the programs that you administer. Title 11 obviously is one of these, where they recommended, as I remember, zero funding for the Title 11 program, which is a program where we have had the ability to aid our U.S. industries, not through giving them money or giving them grants or giving them construction subsidies, but rather giving them loan guarantees whereby they can go to the private markets and borrow money to build ships in U.S. yards that will have U.S. sailors on board, and that that loan has to be repaid by the private company and only if they default would the government have to participate in picking up a portion of that loan, and it is only a portion of the loan.

We regularly fund the differential or the risk factor in getting a loan that is guaranteed by the government. That is a program that has worked very well and it has worked very well for a very long time. It has particular challenges now because of the economy and particularly in some of the civilian cruise ships that we are watching very closely.

This is going to be on your watch, and it is going to be tough, because you are going to be in the middle. You have the Congress that supports this and an Administration that does not. You work for the Administration, but you also have to follow the laws of the Congress, and the Congress has said very strongly that the Title 11 program is one that we support, this Committee supports, this Congress supports, and it is the law of the land.

So we would hope very much that you would aggressively enforce it, do not drag your feet. It is going to be tough. You have somebody downtown on Pennsylvania Avenue looking over your shoulder and you are going to have Congress looking over your shoulder, and you have to carry forward.

But you have done that, you have been there, and I strongly support your confirmation.

With that, it is your turn and we would be happy to hear from you. Welcome.

**STATEMENT OF CAPTAIN WILLIAM G. SCHUBERT, NOMINATED  
TO BE ADMINISTRATOR OF THE MARITIME  
ADMINISTRATION AT THE DEPARTMENT OF  
TRANSPORTATION**

Mr. SCHUBERT. Thank you, Mr. Chairman and Members of the Committee. Thank you for the opportunity to appear before you today as President Bush's nominee to be the next Administrator of the Maritime Administration. It is a great honor to be called to serve the President and our nation in these challenging times.

The President's long-term commitment to defeat terrorism will require significant support from all segments of the maritime industry. In this regard, the Maritime Administration will play an integral role in providing sufficient commercial and government-owned sealift to support our military overseas operations. These programs include the 115-ship Voluntary Intermodal Sealift Agreement program, better known as VISA, the 76-ship Ready Reserve Force, and the highly skilled U.S. citizen mariners to crew these ships.

At home, the Maritime Administration will coordinate with private industry, labor, and various government agencies in an effort to ensure that the United States has secure ports, adequate shipbuilding and repair capabilities, efficient intermodal transportation systems to support our ongoing war against terrorism. If confirmed by the Senate, I will devote my experience, my knowledge, and my sincerest passion for this industry to accomplish these objectives.

I do want to emphasize the importance I attach to the role of our agency in the current situation. Governor Ridge has called for a comprehensive and coordinated multi-agency effort to ensure our homeland security. The potential for maritime-related terrorism poses an unacceptable threat to our homeland security. The Maritime Administration is the primary conduit to the maritime industry and has substantial capabilities to advise Secretary Mineta on this critical issue.

The Maritime Administration's knowledge, experience, and industry relationships will help to ensure that an appropriate balance is struck between proposed security measures and the efficient flow of commerce. If confirmed, I look forward to working

with Secretary Mineta, Governor Ridge, and my DOT colleagues at the Department to develop short and long-term enhancements to port and maritime security.

More broadly, the Maritime Administration is the promotional agency for the U.S. maritime industry. I am committed to managing the agency's staff and resources in a way that provides the best value to our government and to industry. I will also strive to achieve a consensus amongst our stakeholders for a renewal of the Maritime Security Fleet program sufficient to meet our national security requirements.

If confirmed, I look forward to working and advising Secretary Mineta in furthering his domestic maritime transportation initiative. The Secretary has rightly said that "transportation is the key to productivity and therefore the success of virtually every business in America." New and revitalized domestic maritime transportation infrastructure is essential to meet our nation's domestic transportation needs, to support our economy into the twenty-first century.

In summary, a strong maritime industry is essential to our national defense in time of war or declared emergency, such as we have now, and a fundamental bulwark to our United States economic well being. If the United States is to maintain our position as the world's preeminent international trading power, we must also promote and maintain our position as a viable maritime power. If confirmed, I look forward to working closely with the Members of this Committee in developing maritime policy tailored to meet our strategic objectives.

Let me conclude by thanking the Committee for its consideration for my nomination and repeating my promise to work closely with you. I would be pleased to answer any questions.

[The prepared statement and biographical information of Captain Schubert follow:]

PREPARED STATEMENT OF WILLIAM G. SCHUBERT, ADMINISTRATOR-DESIGNATE,  
FEDERAL MARITIME ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman, Senator McCain, Members of the Committee, thank you for the opportunity to appear before you today as President Bush's nominee to be the next Administrator of the Maritime Administration. It is a great honor to be called to serve the President and our Nation in these challenging times. Thank you Senator Hutchison for your kind introduction. I am honored and grateful to have your support.

The President's long term commitment to defeat terrorism will require significant support from all segments of the US maritime industry. In this regard, the Maritime Administration will play an integral role in providing sufficient commercial and government-owned strategic sealift to support our military's overseas operations. These programs include the 115-ship Voluntary Intermodal Sealift Agreement program (VISA), the 76 ship Ready Reserve Force, and the highly skilled U.S. citizen mariners to crew all these vessels. At home, the Maritime Administration will coordinate with private industry, labor and various government agencies in an effort to ensure that the United States has secure ports, adequate shipbuilding and repair capabilities, efficient intermodal transportation systems, to support our ongoing war against terrorism. If confirmed by the Senate, I will devote my experience, knowledge and passion for this industry to accomplish these objectives.

I do want to emphasize the importance I attach to the role of this agency in the current situation. Governor Ridge has called for a "comprehensive and coordinated" multi-agency effort to ensure our homeland security. The potential for maritime related terrorism poses an unacceptable threat to our homeland security. The Maritime Administration is the primary conduit to the maritime industry, and has substantial capability to advise Secretary Mineta on this critical issue. The Maritime Administration's knowledge, experience and industry relationships will help to en-



sure that an appropriate balance is struck between proposed security measures and the efficient flow of commerce. If confirmed, I look forward to working with Secretary Mineta, Governor Ridge, and my DOT colleagues at the Department to develop short and long-term enhancements of port and maritime security.

More broadly, the Maritime Administration is the promotional agency for the US Maritime Industry. I am committed to managing the agency's staff and resources in a way that provides the best value to the government and industry. I will also strive to achieve a consensus among the stakeholders for a renewal of the Maritime Security Program sufficient to meet our national security requirements.

If confirmed, I look forward to working with and advising Secretary Mineta in furthering his domestic Maritime Transportation System initiative. The Secretary has rightly said that "transportation is key to the productivity and therefore the success of virtually every business in America." New and revitalized domestic maritime transportation infrastructure is essential to meet our nation's domestic transportation needs to support our economy into the 21st Century.

In summary, a strong US maritime industry is essential to our national defense in time of war or declared emergency, and a fundamental bulwark of United States economic well being. If the US is to maintain our position as the world's preeminent international trading power, we must also promote and maintain our position as a viable maritime power. If confirmed, I look forward to working closely with the members of this committee in developing maritime policy tailored to meet these strategic objectives.

Let me conclude by thanking the Committee for its consideration of my nomination and repeating my promise to work closely with you. I would be pleased to respond to any questions you may have at this time.

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#### BIOGRAPHICAL INFORMATION

1. Name: (Legal Name): William Grant Schubert. (Nick Names Used): Captain Bill Schubert.

2. Position to which nominated: Maritime Administrator.

3. Date of nomination: N/A.

4. Address: (Information not available to the public).

5. Date and place of birth: March 18, 1952.

6. Marital status: Married to Gail Marlene Becker since 9/16/78.

7. Names and ages of children: Chris Schubert (biological son) age 19; and Jessica Mathis (adopted daughter) age 22.

8. Education: U.S. Merchant Marine Academy, attended 1970–1974; Bachelor of Science granted on June 24, 1974; Obtained USCG Unlimited Master License any Oceans; and served 10 years as a commissioned officer in the US Navy Reserve.

9. Employment record: (1974–1984—Worldwide) Reynolds Metals Company—10 years experience performing the duties and responsibilities of a USCG licensed deck officer including planning and stowage of cargo loading and discharge, assuring compliance with all USCG and ABS rules and regulations, implementing ongoing maintenance and repair program, shipyard operations, and structural and cargo surveys; (1984–1986—Scotland & Houston, Texas) Global Marine Drilling—Master/Offshore Installation Manager—Overall responsibility for the safe, legal and efficient management of three (3) US-flag Mobile Offshore Drilling Units operating in the UK sector of the North Sea. Also, managed the marine operations of twelve (12) US-flag drillships located worldwide; (1986–1995—Washington, D.C. & Houston, Texas) Maritime Administration (MARAD)—1986–1990 Appointed offshore industry expert to advise the Maritime Administrator in formulating policy for the management, maintenance and liquidation of over \$2 billion in marine assets acquired through defaults under the Federal Ship Financing Program. From 1990–1995, served as MARAD's regional representative for all of MARAD's program interest in the southwestern US. During Operation Desert Shield/Desert Storm, was responsible for monitoring the Port Readiness Program, vessel load out operations and interagency planning meetings for the Port of Houston; (October 1995–Present, Houston, Texas) President of International Trade & Transportation, Inc.—Provides transportation related consulting services to ocean carriers, project exporters, freight forwarders, and lending institutions. Since 1995, have provided direct consulting services for major international infrastructure projects valued at over \$7 billion dollars. These projects generated approximately \$50 million in revenue for the US-flag ocean carriers.

10. Government experience: Served on the Transportation Advisory Committee to the Bush-Cheney Transition Team.

11. Business relationships: From October 1995, held the position of President of International Trade and Transportation, Inc. As per the requirements of Schedule D, Part II of SF-278, the following companies were provided direct consulting services by William Schubert: (1) Accroven SRL, (2) MWI Corporation, (3) Brown & Root International, (4) American Bechtel, Inc., (5) Bechtel International, Inc., (6) Petrobras, (7) Gas TransBoliviano S.A., (8) Panalpina, Inc, (9) Transoceanic Shipping, (10) Zust Bachmeier Inc., (11) Circle Freight, (12) Alaska Cargo Transport, (13) Enron, (14) Danzas AEI.

12. Memberships: (1998 to Present) Cofounder of the US Exporters Competitive Maritime Council; (1995 to Present) US Gulf Coast Chamber of Commerce; (2001—Present) National Industrial Transportation League; (1990 to Present) US Merchant Marine Academy Alumni Association (past Vice President—Houston Chapter); (1996 to Present) Vice President & cofounder of the Interscholastic Hockey Association (non profit youth sports); Navy League (past member) NDTA (past member); International Traffic Managers Association (past member); Council of Logistics Management (past member); International Customs House Brokers and Freight Forwarders Association (past member); American Association of Port Authorities (past member).

13. Political affiliations and activities: (a) Elected delegate to the Texas Republican Party Precinct & Senatorial District Conventions in 1992, & 2000. Elected delegate to Texas Republican Party State Conventions in 1992, 1996 & 2000. (b) Member the Republican Party of Texas and the National Republican Party. (c) \$1,000 contribution to Bush for President, Inc., in fall of 1999.

14. Honors and awards: (1994) US Merchant Marine Outstanding Professional Achievement Award; (1989) Secretary of Transportation “Silver Medal” for Meritorious Achievement; (1985) Global Marine “President’s Excellence Award” for preventing loss of life and property during a severe well blowout in the North Sea.

15. Published writings: None.

16. Speeches: I have participated as an invited speaker at numerous industry functions, however, I have not delivered any “formal speeches” during the past 5 years.

17. Selection: (a) To my knowledge, I have been chosen for this nomination due to my extensive experience twenty-seven (27) year working within the public and private sectors of the maritime industry. In addition, I am a graduate of the US Merchant Marine Academy (USMMA), and have 12 years operational experience sailing as an officer aboard US-flag vessels. (b) A strong US maritime industry (i.e. international & domestic fleets, shipyards, ports and intermodal infrastructure) is essential to our national defense in time of war or declared emergency. In addition, if the US is to maintain our position as a great international trading power, we must also promote and maintain our position as a viable maritime power. The Maritime Administration (MARAD) plays an instrumental role in facilitating the above objectives. In this regard, my background and experience affirmatively qualifies me to carry out the mission of MARAD as follows: In 1974, all graduates of the USMMA were required to fulfill a service obligation by sailing a minimum of four (4) years on US-flag vessels, and concurrently maintain a commission in the US Naval Reserve. Upon graduation from the USMMA, I exceeded the required service obligation by sailing 12 (12) years as a USCG licensed deck officer (including two (2) years as Master), and serving 10 years as a commissioned US Naval Reserve Officer. The above “hands on” shipboard experience will be a valuable asset in administering MARAD’s Ready Reserve Fleet (RRF) functions, and effectively handling maritime labor and training issues. In addition, manpower projections indicate that there may be a significant shortage of qualified seamen to fulfill strategic sealift requirements during a declared national emergency. I believe that my first hand knowledge of ship operations will provide credible leadership to the MARAD staff in developing creative contingency plans to address the anticipated labor shortfalls. My working knowledge of the economics of shipboard operations is also a valuable resource in developing policy and strategy to increase the size of the US-flag commercial fleet; Many newly confirmed political appointees must initially allocate valuable time to familiarize themselves with their agency’s programs, organizational staffing, and overall mission. However, in view of my experience working at MARAD from 1986 through 1995, I acquired an intimate working knowledge of all MARAD’s programs. After confirmation, I would be able to immediately focus my attention on properly administering and improving the agency’s programs, and providing direction in advising the Secretary in developing sound maritime policy. In addition, MARAD has been assigned certain national security functions during a declared national emergency. Based on my previous tenure at MARAD, I am completely cognizant of MARAD’s national security functions and can provide the necessary leadership immediately upon confirmation; As President of International Trade & Transportation, Inc. (ITT), I provided specialized project consulting services to the

major U.S. engineering, procurement and construction (EPC) contractors in the following key areas: Critical path logistical planning, Transportation risk analysis & mitigation, Marine and DSU insurance, Planning to insure effective utilization of available financial resources, Planning to insure safe and timely transportation of cargo, Cost-benefit analysis of available ocean and intermodal transportation options, US Government regulations governing foreign and domestic ocean transportation; Under my direction, ITT has provided the above consulting services to international EPC projects valued over \$7 billion dollars. The successful completion of these projects involved a high degree of planning and coordination between the exporter's procurement and transportation departments, financial institutions, port operations, trucking/rail providers, freight forwarders and ocean carriers. These projects generated approximately \$50 million in revenue for the US-flag ocean carriers. My broad based experience in these areas will be a valuable asset to MARAD in developing a maritime policy tailored to our nation's requirements into the 21st century.

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate? Yes.
2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain. No.
3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization? No.
4. Has anybody made a commitment to employ your services in any capacity after you leave government service? No.
5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? Yes.

#### C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers. Please refer to the opinion letter of the Assistant General Counsel.
2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated. Please refer to the opinion letter of the Assistant General Counsel.
3. Describe any business relationship, dealing, or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated? Please refer to the opinion letter of the Assistant General Counsel.
4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy. In 1998, I worked on behalf of Alaska Cargo Transport of Seattle, Washington, to re-establish coastwise trading privileges for the US-flag offshore tug ENFORCER. This was successfully accomplished through special "Chain of Title" legislation introduced by the Honorable Senator Kay Bailey Hutchison.
5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide a copy of any trust or other agreements.) Please refer to the opinion letter of the Assistant General Counsel.
6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position? Yes.

#### D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details. No.
2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county,

or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details. No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in an administrative agency proceeding or civil litigation? If so, provide details? No.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination. Throughout my career in both the public and private maritime sectors, I have strived to maintain the highest ethical & legal standards. If confirmed by the Senate, I would endeavor to maintain these high standards for myself, senior staff, and the Agency as a whole.

#### E. RELATIONSHIP WITH COMMITTEE

1. Will you ensure that your department/agency complies with deadlines set by congressional committees for information? Yes, to the best of my ability.

2. Will you ensure that your department/agency does whatever it can to protect congressional witnesses and whistle blowers from reprisal for their testimony and disclosures? Yes, to the best of my ability.

3. Will you cooperate in providing the committee with requested witnesses, to include technical experts and career employees with firsthand knowledge of matters of interest to the committee? Yes.

4. Please explain how you will review regulations issued by your department/agency, and work closely with Congress, to ensure that such regulations comply with the spirit of the laws passed by Congress. Laws passed by the Congress represent the will of the people as expressed through their duly elected representatives. As such, every effort should be made by the department/agency to implement regulations that conform to the spirit and the intent of the law.

To that end, I will establish a section in the Office of the Chief Counsel to review all regulations issued by the Maritime Administration. It will coordinate with all the subject matter branches of MARAD to insure that our agency has a proper understanding of the intent of the law, and that all regulations issued by MARAD comply with the provisions of the Administrative Procedure Act (APA). The legislative section, the Chief Counsel's office, the Secretary, Deputy Secretary, General Counsel, and the congressional liaison officer in my office, will interact with the appropriate entities in Congress to make certain that MARAD's regulations are being promulgated in accordance with the particular intent of Congress.

It is important to note that MARAD is not the only Federal agency that issues regulations having an impact on U.S. maritime policy. Therefore, I shall work to insure that MARAD, as the Administration's representative for maritime policy, consults with and provides expertise to those agencies formulating their own regulations to be consistent with MARAD and DOT's policies and procedures.

5. Describe your department/agency's current mission, major programs, and major operational objectives. The overall mission of the Maritime Administration is to promote the development and maintenance of an adequate, well-balanced, United States merchant marine, sufficient to carry the Nation's domestic waterborne commerce and a substantial portion of its waterborne foreign commerce, and capable of serving as a naval and military auxiliary in time of war or national emergency. MARAD also seeks to ensure that the United States enjoys adequate shipbuilding and repair service, efficient ports, effective intermodal water and land transportation systems, and reserve shipping capacity in time of national emergency. The major programs and objectives are as follows: *National Security*.—In view of the tragic events of September 11, MARAD's Office of National Security will play an integral role in providing the necessary auxiliary support for our operations overseas. This office administers all of MARAD's national security related programs. These programs provide commercial and government-owned shipping capability in times of national emergency and to meet Department of Defense strategic sealift requirements. The Ship Operations office manages and maintains the fleet of inactive, Governmentowned vessels in the National Defense Reserve Fleet (NDRF), including the Ready Reserve Force (RRF). The RRF currently has 76 vessels. It provides a ready source of "surge" shipping, available when needed by the Department of Defense's U.S. Transportation Command (USTRANSCOM), to support rapid deployment of U.S. military forces. The National Security Planning office develops and maintains plans for carrying out transportation support activities for any military mobilizations required due to a war or a national emergency. The office also maintains emergency resource evaluation data; helps formulate international and na-

tional plans for maritime emergency and mobilization activities; and operates MARAD's emergency operations and telecommunications centers. The Sealift Support office manages the Maritime Security Program and the Voluntary Intermodal Sealift Agreement. These programs are designed to assure the availability of sufficient U.S. commercial sealift capability and the U.S. intermodal system to sustain U.S. military operations overseas in an emergency. This office also administers the transfer of U.S. ships to foreign interests, the disposal of obsolete vessels in the NDRF, and the transfer of vessels to states and other governmental bodies and qualified nongovernment parties, as required; *Financial Approvals and Cargo Preference*.—The Cargo Preference program provides the necessary base cargoes required to sustain a viable US-flag commercial fleet. This office manages the Government cargo preference program and conducts financial analysis and approval activities in support of a variety of MARAD programs, including the shipbuilding and shipyard modernization loan guarantee program. The MARAD cargo preference and financial assistance programs require current data on the cost of operating ocean-going ships under both U.S. and foreign flags. The Financial and Rate Approvals office collects and analyzes this type of data. The office determines 'fair and reasonable' guideline shipping rates for Government cargoes to insure that the Government isn't overcharged. In addition, the office conducts financial analyses to support other MARAD offices in determining the financial qualifications of contractors and applicants for financial assistance, reviews contractor audit appeals, determines the financial acceptability of documents provided to MARAD and provides financial management services in support of several MARAD-administered programs. In addition to serving as MARAD's coordinator for all customer service activities, the Associate Administrator directs the Ship Operations Cooperative Program, a cost-shared partnership between government and industry, that focuses on solving common ship operations problems and developing products that meet the common needs of the program members; *Shipbuilding*.—This office manages several MARAD programs designed to support American shipbuilding. The Shipbuilding and Marine Technology office promotes the construction of ships in U.S. shipyards for both foreign and domestic trades. They seek to improve the competitive position of U.S. shipyards by serving as a "think tank" on ship design, ship engineering, ship construction facilities and technologies, and methods for reducing shipbuilding costs. The Ship Financing office administers the Federal Ship Financing loan guarantee program for ship construction and reconstruction in U.S. shipyards, and for U.S. shipyard modernization efforts. The office also manages the capital construction fund (CCF) and construction reserve fund (CRF) programs. These funds allow shipping companies to accumulate earnings over time in order to replace their U.S. flagged ships with new ships constructed in U.S. shipyards. The Insurance and Shipping Analysis office administers MARAD's marine insurance and marine *war risk insurance* activities and works with the insurance industry to strengthen the domestic marine insurance market; *Port, Intermodal, and Environmental Activities*.—This office manages a variety of MARAD programs to ensure that U.S. waterways, ports and intermodal connections are able to compete in the global economy of the 21<sup>st</sup> Century. The Ports and Domestic Shipping office seeks to improve the use of U.S. ports, port facilities, and domestic shipping. The principal areas of concern include: coordinating domestic and international port activity with a variety of public and private entities, and creating and promoting advanced methodologies to enhance the competitive position of the domestic waterborne transportation industry. The office also identifies and demonstrates agile port and high-speed technologies; analyzes commodity flows and traffic patterns in the domestic trades; and ensures the ability of ports to operate effectively under emergency mobilization conditions. The Intermodal Development office promotes the development and improved utilization of marine-related intermodal transportation systems and provides technical assistance to other agencies and to organizations concerned with intermodal development. The primary areas of emphasis include improving intermodal access to ports, and conducting pilot projects to demonstrate improved techniques or technologies that will enhance intermodal transportation. The Office of Environmental Activities develops and coordinates MARAD's environmental activities. The primary areas of concern to MARAD include improving the control and abatement of ship-generated pollution, and helping to eliminate environmental problems at U.S. ports and MARAD-operated facilities; *Policy and International Trade*.—This office assists the Maritime Administrator in developing MARAD's strategic and performance plans, conducts studies and evaluations of MARAD programs, supports the Administrator's negotiation of multilateral and bilateral maritime agreements, and conducts statistical and economic analyses of the shipping industry. Recent legislation requires Government agencies to create and use strategic and performance plans. The Office of Policy and Plans serves as the focal point for these planning activities as well as for program

evaluations. The office also prepares general policy papers and reviews proposed legislation and regulations to determine their impact on the Government's maritime policies. MARAD participates in a wide variety of international activities concerned with shipping matters. The International Activities office analyzes foreign economic and political developments that may affect U.S. shipping and maritime industry interests; identifies and establishes contact with U.S. and foreign government and maritime industry representatives, and the principal international governmental and private organizations concerned with shipping matters. It also develops MARAD policy positions on international activities of interest to the U.S. maritime industry and takes action to present the U.S. Government's position in these matters. The office also serves as Executive Secretary for coordinating all matters pertaining to maritime bilateral agreements and related negotiations with foreign governments and international organizations. The Statistical and Economic Analysis office procures, maintains and disseminates highquality, timely and consistent trade, vessel and related data; assists maritime data users to define their needs; and provides responsive data support at the lowest possible cost. In partnership with the U.S. Army Corps of Engineers, the office produces the official monthly U.S. Foreign Waterborne Transportation Statistics. It also produces economic analyses, principally in-depth market reviews of the major industry segments, and informative maritime system reports to support other MARAD offices in their program responsibilities, policy analysis and informed decisionmaking.

6. Are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so? Yes.

#### F. GENERAL QUALIFICATIONS AND VIEWS

1. How have your previous professional experience and education qualifies you for the position for which you have been nominated. My degree from the US Merchant Marine Academy (USMMA) has provided the initial tools and a solid foundation to pursue an active career in the maritime industry. During my 20 seven (27) year career within the maritime industry, I have made every effort to exemplify the highest tradition of the USMMA Corps which is embodied by our motto "Acta Non Verba" (i.e. Deeds Not Words). The Maritime Administrator advises and assists the Secretary of Transportation on commercial maritime matters, the U.S. maritime industry, and strategic sealift. My comprehensive maritime experience provides the necessary background to advise the Secretary in all matters related to the maritime industry and strategic sealift requirements. In view of my 20 seven (27) year career working directly with all segments of the industry, I will be in a strong position to provide assistance to the Secretary in developing sound maritime policy tailored to our nation's requirements into the 21st century. The Administrator also serves as the Director of the National Shipping Authority when the President has declared a national emergency. This specific responsibility is especially critical at this time. In this regard, my previous experience administering MARAD's national security responsibilities in the field during Operation Desert Shield/Desert Storm has given me the necessary "first hand" knowledge to properly execute the functions of the National Shipping Authority (when authorized). In addition, my 12 (12) years active ship operational experience has provided the necessary qualifications to advise the Secretary on strategic sealift requirements. The Maritime Administrator maintains liaison with public and private organizations concerned with the U.S. maritime industry. Working as an internationally recognized maritime industry consultant has provided the opportunity to work directly with virtually all segments of the industry. These industry segments include foreign & domestic carriers, shippers, freight forwarders, shipyards, trade organizations, maritime labor interest, ports, and various government entities. In addition, I have five (5) years experience working in the capacity as MARAD's regional liaison to the public and private organizations concerned with the U.S. maritime industry in the SW United States. As the U.S. maritime policy advisor to the Secretary, the Administrator also maintains contact with international maritime groups, conducts negotiations, and maintains effective relations with other agencies of the Federal Government and the public. My previous tenure at MARAD involved preparing trade statistics and analysis to insure compliance with maritime bilateral trade agreements. Over the last 15 (15) years, I have also actively participated in industry trade associations, international negotiations related to project activity, and was assigned to various interagency working groups. My consulting activity required communications, negotiations, and interactions with international entities in twenty-one (21) different countries.

2. Why do you wish to serve in the position for which you have been nominated? There is no greater honor than to serve our President, the Secretary and country in these challenging times. Prior to the tragic events of September 11, my overall

objectives, were to provide leadership in developing effective maritime policy, and improving employee moral at MARAD. Subsequent to the attack on America, it has become a priority to ensure that the military has sufficient strategic sealift to fulfill upcoming mission requirements. To this end, I will devote all my time, energy and resources to accomplish these objectives.

3. What goals have you established for your first 2 years in this position, if confirmed? If confirmed by the Senate, I have established the following specific goals within the first 2 years in this position: Develop a consensus between the Department of Defense, US-flag carriers, maritime labor, Congress and the Administration for renewal of the Maritime Security Program sufficient to meet our national security requirements; Provide recommendations to the Secretary of Transportation on developing policy furthering the domestic Maritime Transportation System initiative; With regards to the negotiations of Bilateral Maritime Agreements, provide counsel to the Secretary of Transportation that accurately reflects the best interest of the US maritime industry; Over the last 10 years, there has been an unprecedented decline in US-flag breakbulk tonnage. Over the next 2 years I will work diligently with industry and labor to encourage new US-flag breakbulk tonnage to enter the commercial market. The new US-flag breakbulk tonnage would also represent valuable additional assets to our strategic sealift; MARAD is the promotional agency for the US Maritime Industry. To this end, I am committed to managing the agency's staff and resources in a way that provides the best value to the industry; Develop an environmentally sound and economically viable action plan to dispose the vessels in the National Defense Reserve Fleet; As the official advocacy agency responsible for US maritime policy, I will ensure that MARAD provides the necessary assistance to other US government agencies that may be engaged in developing policies, legislative initiatives or regulations that have an impact on the maritime industry.

4. What skills do you believe you may be lacking which may be necessary to successfully carry out this position? What steps can be taken to obtain those skills? I will rely on senior MARAD/DOT staff to advise the proper protocol in working with the legislative branch.

5. Who are the stakeholders in the work of this agency? Congress and the maritime industry represented by US-flag carriers, shipyards, ports, intermodal transportation providers, shippers and trade associations. In addition, those who labor in this crucial area. The US armed forces, and the people they protect—our fellow citizens.

6. What is the proper relationship between your position, if confirmed, and the stakeholders identified in question No. 10. The Maritime Administrator is the official spokesperson for US maritime policy. As such, I will insure that the relationship with the stakeholders, my actions, as well as MARAD's employees are consistent with the highest legal and ethical government practices. As is the case with any agency of government, MARAD has the highest responsibility to maintain the economic well being and security of the American people.

7 The Chief Financial Officers Act requires all government departments and agencies to develop sound financial management practices similar to those practiced in the private sector. (a) What do you believe are your responsibilities, if confirmed, to ensure that your agency has proper management and accounting controls? My responsibilities are absolutely clear. They include the need to seek out and draw upon the assets available within the agency itself, the Transportation Department, OMB, and, where appropriate, the private sector to make sure the Maritime Administration has the most precise, accurate, and effective management and accounting controls possible. (b) What experience do you have in managing a large organization? I have two (2) years experience managing the overall safe, legal and efficient operations of Mobile Offshore Drilling Units operating in the UK sector of the North Sea. Each unit utilized as many as 100 multinational employees. The North Sea represented one of the harshest marine environments in the world in which a high degree of management and leadership skills was required. In my consulting capacity, I have provided management expertise for international projects valued over \$7 billion dollars within 21 different countries. I was required to simultaneously provide these management and consulting services for several different projects at the same time. The successful completion of these projects involved a high degree of planning and coordination between several departments including procurement, transportation, finance, port operators trucking/rail providers, freight forwarders and ocean carriers. I believe this experience constitutes the management of "large organizations" for the purpose of this question.

8. The Government Performance and Results Act requires all government departments and agencies to identify measurable performance goals and to report to Congress on their success in achieving these goals. (a) Please discuss what you believe

to be the benefits of identifying performance goals and reporting on your progress in achieving those goals. The private sector operates on the principle of identifying measurable goals, and institution of accountability to insure that reasonable progress has been made in achieving those goals. The American people should expect the same high performance standards from their Government, and report to Congress their success in achieving measurable performance goals. (b) What steps should Congress consider taking when an agency fails to achieve its performance goals? Should these steps include the elimination, privatization, downsizing or consolidation of departments and/or programs? The oversight role of the Congress in assuring that all agencies meet the highest standard is of crucial importance in seeing that the American people get full value for their tax dollar. While the remedial steps the Congress might take when any agency falls short of this goal will of necessity vary to meet the needs of the specific situation, these steps should be accomplished quickly to assure that the public interest is well served. There is no question but that these steps could include everything mentioned above, simply because some functions of the Federal Government may have outlived their original purpose. (c) What performance goals do you believe should be applicable to your personal performance, if confirmed? If confirmed, my personal performance should be directly related to my ability to provide effective leadership to accomplish the overall mission and strategic goals of the Maritime Administration. To this end, I would be committed to maximize the resources of the agency to achieve these goals. My personal performance should also be measured by my ability to maintain the highest ethical & legal standards for myself, senior staff, and the agency as a whole.

9. Please describe your philosophy of supervisor/employee relationships. Generally, what supervisory model do you follow? Have any employee complaints been brought against you? The supervisor should provide leadership by example, and be accessible to his/her employees. Whenever possible, the supervisor should always provide the best tools and resources available to perform a particular task, and should not assign responsibilities that they are not willing to perform themselves. The supervisor should *consistently* encourage and reward his/her employees for a job well done, and provide guidance and constructive direction when job performance requires improvement. I generally try to follow the "supervisory model" as exemplified by the leadership skills demonstrated by the great Antarctic explorer Sir Ernest Shackleton [*Shackleton's Way*, Margot Morrell and Stephanie Capparell]. I have never had any employee complaints brought against me.

10. Describe your working relationship, if any, with the Congress. Does your professional experience include working with committees of Congress? If yes, please describe. Except as noted in question C(4), I have not had any significant previous relationship working with the Congress.

11. Please explain what you believe to be the proper relationship between yourself, if confirmed, and the Inspector General of your department/agency. As head of MARAD, I will ensure the fullest cooperation between my agency and the Inspector General with regards to any periodic audits, or investigations into allegations of fraud, waste or abuse.

12. Please explain how you will work with this Committee and other stakeholders to ensure that regulations issued by your department/agency comply with the spirit of the laws passed by Congress. I will establish a section in the Office of the Chief Counsel to review all regulations issued by the Maritime Administration. It will coordinate with all the subject matter branches of MARAD to insure that our agency has a proper understanding of the spirit of the law, and that all regulations issued by MARAD comply with the provisions of the Administrative Procedure Act (APA). The legislative section of MARAD, and the General Counsel's office, will interact with the appropriate entities in Congress to make certain that MARAD's regulations are being promulgated in accordance with the particular intent of Congress.

13. In the areas under the department/agency's jurisdiction, what legislative action(s) should Congress consider as priorities? Please State your personal views. Under MARAD's jurisdiction, I consider the following legislative actions a priority: Continued annual appropriations of the Maritime Security Program (MSP) until the program expires in 2005. Prior to the program's expiration, I will strive to achieve a consensus among the stakeholders for a revised MSP sufficient to meet our national security requirements; U.S. flag carriers operate under a significant disadvantage compared to their foreignflag competition because foreign ship operators pay little or no taxes and their vessels are not subject to the same health, labor, and environmental standards as U.S. registered vessels. There are currently ongoing efforts by Congress and the industry to reform the U.S. tax code, including a tax alternative similar to the "tonnage tax" regime successfully utilized by many European nations. In addition, to encourage and retain an adequate seagoing labor base, tax code revisions (to IRC Section 911) have been introduced in Congress that would



exempt a portion of U.S. seamen's income earned while working outside the U.S. As the advocacy agency responsible for U.S. maritime policy, I would wish to see our agency evaluate and participate in any efforts, such as these initiatives, that would level the playing field for U.S.-flag carriers; The Administration and Congress should work together to develop legislation and policy to further the domestic Maritime Transportation System initiative. These efforts will be required to meet our nation's domestic transportation needs to support our economy well into the 21st Century.

14. Within your area of control, will you pledge to develop and implement a system that allocates discretionary spending based on national priorities determined in an open fashion on a set of established criteria? If not, please State why. If yes, please State what steps you intend to take and a timeframe for their implementation. Striving to keep within the high standards, goals and budget parameters of the Maritime Administration (MARAD), I will see that my agency develops a system that allocates discretionary spending based on national priorities and conforming to the statutory intent of Congress. To this end, I will delegate senior MARAD staff within the agency's budget (financial) office the task of examining all expenditures to ensure that our discretionary spending is based on national priorities. This will, of course, be accomplished within the open budget process and in accordance with pertinent criteria developed and used by the staff delegated this responsibility.

*October 19, 2001*

ROSALIND A. KNAPP  
Designated Agency Ethics Official  
U.S. Department of Transportation  
Washington, DC.

Dear Ms. Knapp:

The purpose of this letter is to describe the steps that I intend to take to avoid any actual or apparent conflict of interest in the event that I am confirmed for the position of Administrator, Maritime Administration, at the Department of Transportation.

Upon confirmation, I will resign my position as President of International Trade & Transportation (ITT) Inc., Pinehurst, Texas. Also, I will divest my ownership interest in ITT, Inc., by transferring my interest to my spouse. In addition, my Simplified Employee Pension Plan with ITT, Inc., terminates upon my resignation from ITT, Inc.

My spouse and I are the only employees in ITT, Inc. I provide consulting services to shippers and carriers. These services would end upon my resignation from ITT, Inc. My spouse operates a business information service for shippers and other organizations with international business interests. This service provides weekly market related information to subscribers. Accordingly, pursuant to 18 U.S.C. § 208, I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the financial interests of ITT, Inc., unless I first obtain a written waiver or qualify for a regulatory exemption. Pursuant to 5 C.F.R. § 2635.502, for a period of one year after I provided services to a former client, I will not participate in any particular matters involving specific parties in which any of my former clients is a party or represents a party, unless I am authorized to participate.

As a former employee of Reynolds Metal Company, I am a participant in the Alcoa, Inc., defined benefit retirement pension plan. Therefore, I will not participate personally and substantially in any particular matter that will have a direct and predictable effect on the ability or willingness of Alcoa, Inc., to provide this contractual benefit unless I first obtain a written waiver or qualify for a regulatory exemption.

Upon confirmation, I will resign my position as Vice President of the Inter-scholastic Hockey Association, Inc., Spring, Texas.

Sincerely,

WILLIAM G. SCHUBERT

Senator BREAUX. Thank you very much, Captain. I am glad to hear your statement. It is strong and it is very positive.

Obviously, I would not expect you to be saying anything else.

You are not going to come up here and say, I do not know anything about ships, I am not for an American fleet, and I am not

for an American flag, I am not for American seamen. So we are starting in the right direction.

But we want to make sure, and I think you are that type of person, that it is more than words. It has got to be a real commitment, that you know this is an opportunity for you, it is an opportunity for this country, because you have a great challenge and every challenge presents great opportunities if we accept them.

I think it is going to be really important. You are the voice of the maritime industry. Norm Mineta, the Secretary, a good friend of mine, former colleague of mine, he was happy when I left the House because it moved him up one seat and he became Chairman of the Public Works and Transportation Committee. He was one of my most enthusiastic backers to run for the Senate, so he could become Chairman of the Public Works Committee in the House, and now he is Secretary of the Department.

But he has got a lot of other things on his plate, and there has got to be a voice that nags at him constantly. You have got to be the nagger for the oceans, the nagger for the maritime industry, and the nagger for the programs, because nobody else is going to be the advocate over there.

Mr. SCHUBERT. I understand that, Mr. Chairman, and I would like to for the record just remind yourself and the Committee that the motto of the U.S. Merchant Marine Academy is "Acta non verba," which means "Deeds, not words." I have tried to live my 27-year career in the maritime industry with that in mind.

Senator BREAUX. Let me ask a couple of questions that deal with where we are. The maritime transportation system, the Department of Transportation did a recent report that talked about the fantastic growth in the maritime trade worldwide, but at the same time they spoke of the rapid decrease in capacity that we have. So on the one hand the maritime trade worldwide is really increasing, but the U.S.'s ability to participate in that is decreasing in the sense that we are rapidly running out of ships, they are becoming older, more aged, and being retired.

What are your thoughts about that problem? What do we do? Do we just say, all right, we will have all the trade in the world, we will ship everything, but we will just ship it on tankers from Third World countries under flags of convenience? What do we do?

Mr. SCHUBERT. Mr. Chairman, before I attempt to answer that question, I would like to give a personal perspective. I have had, as I said before, 27 years in the maritime industry and 12 years actually sailing on U.S. flag ships. Also I have five members of my own immediate family that have chosen the honorable profession of going to sea.

I have a grandchild which is about 3 years old now and I sincerely hope that we have a U.S. flag merchant marine, that he can choose to go to sea and follow in our footsteps. He has to have ships to do that. So I mention this only because this job, it is an honor to serve the President and people with exceptional leadership like Secretary Mineta, but it is more—the task of rebuilding the U.S. flag merchant marine, at least to me, is more of a mission. It is in my blood. I could not, I guess, express it any better than that. It is important to me, and I wanted you and everybody else to know that.

Unfortunately, the U.S. flag today—you cannot expect U.S. flag carriers to operate ships if it is not profitable to do so. So from the Administration's point of view and also working closely with this Committee, we have to develop sound maritime policy that will make it economical for vessels to operate in the U.S. flag. It is really that simple.

I am committed, Mr. Chairman, to working with this Committee to develop sound maritime policy that will accomplish that.

Senator BREAU. Suppose the Office of Management and Budget Director Mitch Daniels calls you up and says: Bill, come down; I want to talk to you about Title 11; I want you to go down to the White House and sit with the President and tell him what you think about it; I have recommended that it be zero-funded. You go in the Oval Office and President Bush says: Captain, I am trying to get rid of this maritime program called Title 11; what should I do?

Mr. SCHUBERT. Well, first of all, I am a very strong advocate of the U.S. shipbuilding industry and I understand the concerns that they have and the need to renew and to modernize many of our yards. I could just promise you this: that I would be a strong advocate for the industry. That includes labor and all the stakeholders in this regard. I will make the best arguments that I can for the industry.

Senator BREAU. Well, what would those arguments be? Would you tell him that—what would you tell him about how it has worked?

Mr. SCHUBERT. Well, this is somewhat of a difficult question to answer.

Senator BREAU. I think it is real easy.

Mr. SCHUBERT. Well, it is easy, but the Administration's position, as you know, Mr. Chairman, is currently that the Title 11 program needs to be zeroed out.

Senator BREAU. I understand. That is why I phrased the question, if the President calls you in and says, Captain, what do you think about this program.

Mr. SCHUBERT. Well, I would respectfully, Mr. Chairman, given the fact that the official position of the Administration is that the Title 11 program has to be zeroed out, I would have to answer your question by saying that I have to support the President's position.

Senator BREAU. We have got to get into more detail on this. My question to you is if the President says, Captain, what do you think about the Title 11 program, am I right or am I wrong? Are you just going to be a yes person and say, yes, sir, you are right?

Mr. SCHUBERT. No, sir.

Senator BREAU. What would you tell him?

Mr. SCHUBERT. I would definitely not be a yes person and anybody that knows me personally would—

Senator BREAU. So he asks you for your opinion of it.

That is what I am trying to get. What would you tell the President? He is going to want some advice. If he only listens to people that are landlubbers, they are going to say zero it out, it is not needed. I want somebody can say why he should keep it.

Mr. SCHUBERT. Well, instead of just making a statement we should keep it, I think what we need to do is do some cost-benefit

analysis that would be really reflective of the way the industry is and especially the competition that we have in foreign yards, with the tremendous amount of subsidies that they receive.

I think that we could put together a very credible cost-benefit analysis of the shipbuilding industry and their needs and requirements. I would as the Administrator, if confirmed, would make that a priority. It will not be just—I will not be a yes man. I will make very strong arguments.

Let us face it, the Title 11 program is historically since 1994, has had a 3 percent default rate, which compared to the small business loan program, which is around 12 to 13 percent, stacks up pretty good. But I do believe that there are improvements that can be made in how the program is administered, and that will be a priority for me. I am speaking for the next year, because it does look like there is funding in the program. And I will commit that the program is run wisely and we use our government assets wisely.

Senator BREAUX. Well, I know you are trying to dance on this thing and I understand. You have to support the Administration's position.

Mr. SCHUBERT. Correct.

Senator BREAUX. If they say eliminate it and that is my final decision, you have to carry out those recommendations.

But in reaching those recommendations and deciding on those positions, if they call you and ask you what do you think, I would hope that the person in charge of the Maritime Administration would be in a position to advocate a program that I think Congress has always said is important and has been successful.

Because let me tell you, if you do not advocate it there ain't going to be nobody else down there. You are it. For the maritime, we do not have anybody else that is higher up dealing with ships and the maritime industry than you are going to be. So we have to depend on you for making arguments as to why we should have programs that help these areas, because if you do not there is not going to be anybody else there that will. You are it.

Mr. SCHUBERT. Mr. Chairman, I hope that my previous comment about my background in the industry and how it has been my lifeblood for 27 years would be I think sufficient to at least represent to you that I will be an advocate for the maritime industry.

Senator BREAUX. I accept that and want to give you all the help you can and give you all the support you can in making those arguments. But a lot of times you are going to be the only one in the room that is going to have the opportunity to speak aggressively for this industry and we are counting on you to do that.

There is another area that I have become increasingly concerned with. It is the amount of money that the industry contributes and does not get back. If you look at the programs that are trust fund programs that we have, we have a trust fund for the highway program. You pay your gas tax, 100 percent of it goes into the trust fund and it is used for things that are important to people who pay the tax.

In this industry it is not that way. You have got an aviation trust fund, dollar in, dollar out; highway trust fund, dollar in, dollar out. It is for airlines, airports, etcetera; it is for highways, roads, etcetera. But the maritime industry, according to some of the ear-

lier figures that I have seen, is contributing through taxes about \$22 billion annually, \$22 billion, and we are getting back about \$5 billion.

So if you look at what we are doing with things that fly, things that are on roads, they get back what they put in. But this industry is significantly different in that people who ship things, who pay fees and taxes, fuel taxes and taxes for the intercoastal waterways, inland waterways, the customs duties—and what else?

See how important the staff is. Remember that, Bill?

What else? The tonnage tax. If you add up all these various taxes that are paid for the maritime industry, we are not getting back anywhere anything that compares with what these other areas are getting. It is something I want to really concentrate on. That is legislation. What happens is because we have allowed this to happen.

But when you kick in \$22 billion and you only get back \$5 billion, something is wrong, because in aviation it is not like that, in highways and roads it is not like that. So do you have any thoughts about that, any suggestions? Maybe not now. You did not know I was going to ask this question. But what do you think?

Mr. SCHUBERT. I think this is part of—your question kind of lends itself to even a larger issue, which is that most Americans are not aware of the size and the overall impact of the maritime industry on our economy. Even living in a place like Houston, which is a major metropolitan area, there is a lot of people that you could talk to on the street that might not even be aware that there is a port in the city of Houston.

For example, the maritime industry contributes—

Senator BREAUX. It is not as good as the port in New Orleans.

Mr. SCHUBERT. Well, I was not ranking the ports, Mr.

Chairman I just was making a point that there needs to be a greater awareness of what the maritime industry does contribute to the economy. Just for an example, these are numbers that I came across recently, that the maritime industry contributes approximately \$742 billion annually to our U.S. GDP. That is a significant amount of money.

Ninety-five percent of our annual foreign commerce moves in ships through our ports. I think that, unfortunately, there is a lot of Americans that just are not aware of that.

But to answer your question, I am sure you are aware that Secretary Mineta has been talking about TEA-21 in the overall scope of the meeting transportation system. Now, I view this initiative that he has as it is not just transportation policy to relieve our congested corridors or make better use of our inland waterways, but it is also an energy policy. I think we can sell it as an energy policy, because obviously if you are moving—I am just picking it out of the air—5,500 trucks in some sort of way on the intermodal system, you are not relieving congestion, but you are saving energy at the same time.

I also believe that this initiative is a very effective environmental policy and I think we can sell that, too, with very credible numbers. With less trucks—and we are not displacing trucks, by the way, because with the growth expected to be 100 to 200 percent of our trade in the next 10 years or so, we are not displacing trucks. We are just making better use of our infrastructure.

But from an environmental point of view, we are taking trucks that are, let us say, adding to the hydrocarbons in the air and we are taking them off the road. So I think there is a lot of reasons to look at a TEA-21 or an NTS initiative.

As you probably are aware, Secretary Mineta has convened an NTS National Advisory Board and they very soon will be making some very credible recommendations to Secretary Mineta, which will be the basis for a TEA-21 legislative initiative, I believe.

Senator BREAU. Are you part of that at all?

Mr. SCHUBERT. The NTS national Advisory Board? No, I am not. I am not yet, but I will be very soon.

Senator BREAU. As Administrator you would be?

Mr. SCHUBERT. As Administrator I would be.

Senator BREAU. I just wanted to make sure you were in the room.

Mr. SCHUBERT. Yes, I will be. I would like to say that issues like this—I will not delegate important things like this to just staff members. I have an interest in this myself. I will be there actively participating, contributing.

Senator BREAU. I would like you to raise the point that I raised. We are going to raise it and I really would like to work cooperatively with the Administration to see whether we cannot get a more reflective and balanced system for money contributed from this industry and getting it back, in terms of whether it is seaport security or whether it is in terms of port development or whether it is in terms of U.S. maritime fleet expansion.

We are giving up a lot and we are getting back only a fraction of what we contribute. You know, I think a lot of people think that, well, all these tonnage taxes and all these other things are coming right back to the industry, and it is really not. It is going in other places. I think that is not how it is in all those other trust funds. This is something to raise and we are going to be doing more about it.

Just give me a statement on your thoughts about the Jones Act.

Mr. SCHUBERT. I am 100 percent in support. Not only myself, but the President has issued previous statements in support of maintaining the Jones Act or, better known, our cabotage laws. I cannot say any more than that. It is black and white.

Senator BREAU. I think we have just about covered it. There are some grave challenges out there. I think that you uniquely bring some qualifications to this job that are in keeping with what this Committee and this Congress wants to see in a Maritime Administration. I congratulate the President for nominating you.

I will tell you a little side story. My daughter works with a law firm in New Orleans and called me yesterday, because I am in the Hart Building—well, I am not really in the Hart Building. I am supposed to be in the Hart Building, but the Hart Building is closed, so we have not been getting all of the mail. One of the clients in their law firm has written a very strong letter of support to me on your behalf, asking that I support you for Maritime Administrator. Since we had not responded because we had not gotten the letter, they got my daughter to call me and to say—

Mr. SCHUBERT. I see what it takes, Mr. Chairman.

Senator BREAUX. That is it. I tell you, when your daughter calls you have got to call her back. I thought she was calling asking for money, but she was calling to ask me to support your nomination.

I said, "Well, call the people back and tell them not only am I supporting it, I am chairing the confirmation hearing, so you are in really good shape".

So thank you for being with us. Thank your family for being here. Thanks, Senator Brock, for being your brother-in-law and being supportive, as well.

With that, we hope that this Committee will—I would imagine we will try and have something off the floor whereby we will report this nomination and get it to the floor so you can get to work, Captain, and good sailing.

Thank you.

[The prepared statement of Senator John McCain follows:]

PREPARED STATEMENT HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

Good Morning. I want to thank Chairman Hollings for moving swiftly in scheduling this nomination hearing. I know the Administration, and in particular, Captain Schubert, are very appreciative of our Chairman's leadership.

The primary mission of the Maritime Administration (MARAD) is to promote the United States merchant marine and ensure that our nation has a merchant fleet capable of carrying the Nation's waterborne commerce and sufficient to meet our needs during time of war or national emergency. MARAD is also responsible for promoting U.S. shipbuilding. While MARAD's mission is simply stated, it is no easy task. I appreciate Captain Schubert's willingness to serve as its Administrator.

As part of its mission, MARAD operates various promotion programs such as the Maritime Security Program, the Title XI Loan Guarantee Program, and the U.S. Merchant Marine Academy, which I note Captain Schubert is a graduate. MARAD also maintains the Ready Reserve Force sealift vessels. These diverse programs and others present a wide range of challenges for the Administrator, who is tasked with providing firm management policies for these programs, as well as providing day-to-day supervision of MARAD staff activities.

Given the importance of maritime in our international commerce and its potential impact on our nation's security, MARAD and its Administrator play an important role in the federal government. On a number of occasions during the last century, our nation appeared to forget the key role maritime transportation has in ensuring our economic independence and our national security. Only the great build-ups of our merchant fleet during time of war kept the U.S. a maritime power.

The U.S. maritime industry today faces great challenges both in the domestic and international trade. Over the last decade the makeup of the U.S. merchant fleet has changed dramatically. Domestic carriers, faced with sky-high shipbuilding cost, have refused to replace vessels. International carriers have fled burdensome over regulation and anticompetitive corporate treatment under the U.S. flag for flags of other nations. These changes have occurred despite the numerous support programs administered by MARAD.

The greatest task ahead of the next Administrator of MARAD maybe determining why these programs have failed in their purpose of building a strong and self-supportive merchant fleet. I want to take this opportunity to point out some of the risk associated with support programs.

In 1999, the Maritime Administration (MARAD) approved a Title XI loan guarantee for American Classic Voyages, Co. (AMCV) for the construction of two cruise ships for service in the Hawaiian trade. The principal and interest amount presently outstanding is approximately \$185 million. Additionally, MARAD approved other Title XI loan guarantees for American Classic Voyages on smaller coastal cruise vessels with the current principal and interest amount outstanding of approximately \$182 million—for a total outstanding loan guarantee balance of \$367 million.

On October 19, 2001, American Classic Voyages voluntarily filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code leaving the tax payer holding the bag for the total of \$367 million. While it is unclear at this time what the total loss to the American taxpayer will be, one thing is very clear: the Title XI loan guarantee program is in serious trouble. In addition to the current problems

with American Classic Voyages, the Title XI program has already cost taxpayers more than \$78.1 million this year alone due to the default of the Searex project.

Currently, the Title XI program has an outstanding loan guarantee portfolio of approximately \$4.7 billion consisting of 86 projects covering more than 100 vessels, several hundred barges, and seven shipyard modernization projects. What that means is that the American taxpayer could, as happened in the 1980's, be burdened with billions of dollars in debt if an industry downturn occurs. With that much at risk, I think we owe it to the American taxpayers to do all we can to ensure that this program, and all support programs as a matter of policy, have oversight that adequately protects the interest of the taxpayer.

I know Captain Schubert was personally responsible for the liquidation of many of the assets acquired as a result of heavy defaults in the 1980's, and I hope his leadership at MARAD will prevent you having to repeat those liquidation sales.

Our nation maritime history has dimmed in recent years due to a dependence on government programs that do not foster a progressive and competitive attitude in what is clearly become a global market. As Administrator, it will be your job to set a new course for the U.S. maritime industry.

I congratulate Captain Schubert on his nomination. I look forward to working with you knowing that MARAD is gaining a knowledgeable and capable leader.

[Whereupon, at 10:32 a.m., the Committee was adjourned.]



## A P P E N D I X

### RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO WILLIAM G. SCHUBERT

*Question 1.* Captain Schubert, as you may be aware, the Maritime Administration has granted a loan guarantee for the construction of two large passenger vessels to American Classic Voyages. As I pointed out in my opening statement, American Classic Voyages has filed bankruptcy leaving the taxpayer holding the bag for \$367 million total. In response to my request, the Department of Transportation Inspector General will audit the Maritime Administration's Title XI shipbuilding loan guaranty program. The investigation also will review Title XI to make sure "procedures are adequate and effectively implemented in order to protect the interests of the United States," according to Thomas Howard, deputy inspector general. If you are confirmed as Maritime Administrator, what initiative will you implement to increase oversight of the Title XI program and ensure it is protected?

Answer. I am mindful of MARAD's fiduciary responsibilities to the taxpayers and will seek to improve the oversight of the Title XI due diligence process as necessary. For this reason, I welcome the Inspector General's review of the Title XI program. After the review is completed, I will implement appropriate initiatives based on the Inspector General's recommendations so that the taxpayers' interests are protected. In addition, I intend to conduct my own internal review of the program to evaluate other possible initiatives to improve program operations and oversight.

*Question 2.* What can and should be done to address the relatively high operational costs of American-flagged maritime carriers? Do you support subsidies to offset the high costs of these operations? If so, why? If not, why not?

Answer. Over the last six (6) years, I have participated in three (3) private sector feasibility studies that involved re-flagging new tonnage into the US-flag fleet for specific markets. As such, I have first hand knowledge of economic realities of operating US-flag vessels in the international trade. The cost of US-flag vessel operations reflects America's high standard of living and its business-operating environment. This includes our Nation's tax laws, employment standards, labor laws, environmental protection laws, as well as ship construction and USCG requirements. Our US-flag fleet must compete against shipowners operating in low cost countries, including "open registry" or "flag of convenience" countries such as Panama, Liberia, or Malta, which are essentially tax-havens that have minimal standards for vessel operations. Indeed, the merchant fleets of all traditional maritime countries with high living standards, regulatory standards, and tax rates (such as those in the European Union and Japan) have been in serious decline as a result of the same cost and regulatory disadvantages that face the US-flag fleet.

I have never supported subsidy regimes such as the "Operating-Differential Subsidy" program that failed to promote the efficient operation of US-flag vessels. However, programs such as the Maritime Security Program/Voluntary Intermodal Sealift Agreement, and cargo preference provide important benefits to our economic and national security by ensuring the availability of a US-flag privately-owned merchant fleet to carry U.S. domestic and international waterborne commerce. This fleet also enhances our nation's sealift capability to meet the unique responsibility of the United States as the world's only military superpower. I will strive to develop a consensus among the Department of Defense, US-flag carriers, maritime labor, Congress, and the Administration for renewal of the Maritime Security Program sufficient to meet our national security requirements, and work for effective administration and enforcement of cargo preference laws.

Additionally, we can continue to implement regulatory reforms to conform outdated U.S. laws and regulations to internationally accepted norms. I am aware that other traditional maritime nations in Europe (e.g., United Kingdom, Netherlands, Germany, and Greece) have implemented reforms to reduce the tax burdens on their vessel owners and mariner income earned abroad. I will be evaluating similar proposals to determine if such reforms can enhance the international competitiveness of the US-flag fleet. If the US-flag merchant marine is to serve America's foreign

trade, then we must promote sound maritime policy that enables US-flag carriers to operate profitably in the global marketplace.

*Question 3.* Following Operations DESERT SHIELD and DESERT STORM, changes were made to the operation of the Ready Reserve Fleet (RRF) and the Voluntary Intermodal Sealift Agreement (VISA) Program and Military Security Program (MSP) were created to ensure we could better meet the demands of such a large scale military operation in the future. Please explain how you view these programmatic changes

*Answer.* Subsequent to DESERT SHIELD and DESERT STORM, MARAD and DOD jointly reviewed the "lessons learned" from these operations and made specific enhancements to the RRF program. In addition, MARAD and DOD recognized the need to increase the use of the available US-flag liner service and improve the reliability and responsiveness of Government owned assets.

With respect to Government owned assets, MARAD implemented a "Reduced Operational Status" (ROS) level of readiness on our high priority vessels. This change in program management provided for an increase in personnel performing maintenance work on board these ships, and periodic sea trials, resulting in significant improvements to vessel reliability. These improvements have been verified by USTRANSCOM through annual performance evaluations. For example, the ratio of operating to non-operating days program-wide for the RRF in FY01 was 99.2 percent.

Based on my twelve (12) years operational experience as a licensed deck officer, I strongly support the rigorous use of the sea trial program for RRF vessels. It is only by the physical testing of equipment that its true material condition can be determined. Additionally, it provides an opportunity for a full merchant marine crew to gain valuable training in the operation of the vessel. In view of the unknown duration and magnitude of our current war on terrorism, we must take all steps necessary to properly maintain our current sealift capabilities.

The VISA and MSP programs also have made a substantial contribution to the strategic sealift capabilities of the US-flag commercial fleet to respond to national security emergencies. The MSP requires participants to commit militarily useful ships, intermodal capacity, personnel, equipment and systems to an Emergency Preparedness Program (EPP) which is implemented through VISA. The VISA program provides "assured access" and a smooth transition from peace to war, particularly in the critical early phases of a deployment. From a maritime security standpoint, the MSP and VISA programs also provide the added assurance that critical military cargoes are handled by vessels that are crewed with qualified U.S. citizens.

In addition to providing strategic sealift capacity from the commercial maritime industry, MSP and VISA vessels also provide a substantial pool of mariners available to crew the government owned and/or controlled fleet during contingencies. Reliance on anything other than U.S. owned, U.S. flagged, and U.S. crewed ships increases the risk of delayed delivery of military cargoes to the U.S. troops on the battlefield.

The MSP/VISA programs provide the US taxpayers significant value from a cost benefit perspective. USTRANSCOM has informed MARAD that the estimate for duplicating the commitments already made by the US-flag fleet under the MSP/VISA programs could be as much as \$9 billion in initial construction costs. There are additional savings of \$1 billion in annual operations and maintenance costs if assets equivalent to those committed through MSP/VISA assets were totally owned and operated by the US military.

Another important element of the VISA program was the establishment of a planning forum for matching Department of Defense (DOD) requirements to industry capabilities. This planning forum is the Joint Planning Advisory Group (JPAG). Through JPAG, Government and industry jointly identify DOD's requirements, recommend concepts of operations to meet requirements, and comply with antitrust requirements for pooling and teaming arrangements. It is important to note that prior to Operations DESERT SHIELD and DESERT STORM, the maritime industry did not formally participate in the DOD contingency planning process.

*Question 4a.* Through much of the last century, our nation's maritime policy was directed toward supporting our national defense needs. While meeting our defense needs should and must remain a top priority, changes in the global market and advances in the maritime industry have clearly put new pressures on the industry that were not contemplated during the development of many of the laws and regulations that form our current maritime policy. What specific changes would you propose to bring our nation's maritime policy in line with the maritime industry of today?

*Answer.* US-flag vessels compete globally based on service quality, and providing timely and reliable intermodal transportation to shippers at reasonable prices. Pro-

viding such premium services, however, does not mean that costs can be appreciably higher than those of direct, lower-cost competitors in the world market. If U.S.-companies do not earn sufficient returns to cover costs and the continuing investments required in this extremely capital-intensive industry, these companies will not be able to competitively operate US-flag vessels in a global market.

In view of the above marketplace realities, if confirmed I will be carefully analyzing and assessing the options which might be available to us in the near term. These options may include: enhancements to the MSP/VISA programs; revisions to the cargo preference regulations affecting the movement of food aid cargoes; and revisions to the Capital Construction Fund program which will attract capital investment (see 4b below). As part of my overall review of our current maritime policies, I will also examine the U.S. tax burdens on our merchant marine and maritime workforce relative to those of their international competitors. By implementing a fair tax policy, we would begin to promote cost parity with the rest of the shipping world.

*Question 4b.* How would these proposed changes provide growth opportunities for our nation's merchant marine and allow it to compete better in the global market?

Answer. The MSP and VISA programs have successfully arrested the unprecedented decline in the US-flag commercial fleet. These programs have also significantly modernized our fleet and maintained investment in the US-flag merchant marine. Between 1996–2001, 17 modern (less than 10 years old) vessels were added to the US-flag liner fleet in order to participate in MSP, and another four were re-flagged under U.S. registry and enrolled as non-MSP, VISA vessels. The addition of these vessels halted the evident decline in a modern US-flag liner fleet, and contributed to a nearly 30 percent increase in average vessel carrying capacity. The MSP program has achieved many strategic objectives, however, a thorough review should be made to determine necessary changes to insure growth opportunities for the US-flag fleet prior to the program's reauthorization in 2005.

In addition, I support the Administration's efforts to provide a limited exemption to what is known as the "three year rule." This out dated provision in the cargo preference regulations excludes US-flag foreign built vessels from participating in US-sponsored food aid programs for a period of three years after re-flagging to the US registry. This provision discourages new tonnage from entering the US registry, and increases the cost of handling US-sponsored food aid (i.e. less competition for cargo).

If confirmed, I would also explore possible changes to the Capital Construction Fund program that would permit qualified withdrawals for construction of new vessels (in US yards) for the contiguous US trade. This would increase the financial resources available in the US market without increasing the burden on the US taxpayers.

*Question 4c.* How would these proposed changes balance our defense needs with our commercial needs in today's global market?

Answer. A competitive US-flag international fleet of militarily useful vessels crewed by U.S.-citizen mariners serves a dual purpose of economic and national security. The presence of US-flag vessels in international trade promotes economic security by providing American shippers with an alternative to foreign-flag operators. The fleet also provides the U.S. Government with legal standing to protect the interests of American businesses and consumers in international negotiations over shipping and intermodal transportation. Additionally, this fleet serves as a vital national security asset for executing the Nation's forward defense strategy, with a central role in military sealift during national emergencies and provides the pool of mariners necessary to crew the government's organic fleet during contingencies. As we move to shape our maritime policy in the years ahead, we will remain focused on the unique dual role of the U.S. merchant fleet, and our need to maintain both the economic and national security interests of the Nation.

*Question 5a.* As you may be aware, I prefer to eliminate restraints on U.S. business competitiveness rather than provide subsidies that remove incentives for businesses to find new ways to operate and compete in the world market. I continue to believe that U.S. companies are struggling to compete in the international maritime industry in part because of the prevalence of subsidies by other flag states. What are your views on maritime subsidies?

Answer. Foreign government subsidies to national industries and restrictions and barriers to free trade have hurt U.S. companies in global markets. U.S. companies will continue to operate at a disadvantage compared to foreign flag shipping lines as long as their governments maintain policies that distort or restrict market access.

*Question 5b.* If confirmed, how would you propose to help improve the competitiveness of the U.S. maritime industry?

Answer. The Administration will continue to press foreign governments to eliminate practices that distort the operation of a free marketplace for shipping services and remove restrictions and barriers on U.S. companies so that they can compete fairly in the world market.

*Question 6a.* Regardless of exaggerated reports on the size of the U.S. merchant fleet issued by the previous Administration, the Jones Act fleet continues to face an up hill battle in meeting the needs of our nation's domestic waterborne commerce. Most users of the domestic water transportation system, except for those of our inland waterway system, face high costs and lack of adequate service. This is not true of our inland waterway system because operators in these areas face competition from road and rail service not available to shippers in areas such as Hawaii and Puerto Rico. While I have attempted to bring about reasonable debate on the issue for several years, domestic trade vessel operators and shipbuilders who benefit from the barriers created by the Jones Act continue to lobby for the status quo. As with other areas of our nation's transportation system, it is important that we bring change to the maritime industry that will allow for a more competitive environment for the domestic maritime industry. What are your views on the Jones Act?

Answer. The President has publicly stated that the Jones Act should be maintained. If confirmed, I will enthusiastically support the President's position on this issue.

Like domestic rail and truck carriers, domestic vessel operators incur "U.S. costs" to operate under the same legal structure affecting tax, labor, immigration and naturalization, and the protection of public safety and the environment—as do all other American businesses. Many foreign-flag carriers can operate at lower cost than US-flag shipping companies in foreign trade, because the former can operate under lower international safety and wage standards, and reduced or negligible tax burdens. However, if foreign-based shipping companies seeking to do business in the United States were required to comply with the same laws as American companies, then the cost differential between U.S. and foreign waterborne carriage would likely disappear. This is true for all domestic modes of transportation—air, rail, truck, pipeline, or water. Moreover, most major maritime countries maintain some form of cabotage policies.

In recent years, legitimate concerns have been raised regarding the availability of qualified seamen necessary to crew our Ready Reserve Fleet (RRF) if a full activation was required. The Jones Act fleet represents a pool of vessels and, more importantly, a pool of seamen that would be available in time of national emergency. If the Jones Act were eliminated, the necessary US-flag vessel resources would quickly disappear. Consequently, we would lose the reserve of U.S. merchant marine officers and crew now employed in the U.S. domestic trade.

*Question 6b.* How would you propose to improve competition in the domestic market and bring about growth in the domestic trade?

Answer. Due to the geography of the continental United States, waterborne transportation usually does not provide the most direct routing for domestic shipments moving from an inland origin to an inland destination. Expensive and time-intensive intermodal transfers to truck and rail feeder carriers on circuitous routes are often necessary to move shipments from land-locked originating points to their final destinations. As a result, some shippers find themselves captive to rail and truck transportation, which move cargo at faster speeds, but in smaller lots and at much higher cost for each ton-mile traveled.

On the other hand, even with intermodal transfers, water transport can be competitive for moving relatively low-value, time-insensitive bulk goods because it is so cheap, as is the case in the inland river and Great Lakes trades. In the oceangoing trades to Alaska, Hawaii, Guam, and Puerto Rico for relatively high-value general cargo, large tug/barges, roll-on/roll-off trailerships, and containerships continue to be competitive against air cargo services. In recent years, tug/barges and even larger and faster containerships have begun to compete effectively against rail and truck carriers in the medium-distance coastwise trades, as north-south rail and highway corridors become increasingly congested.

If confirmed by the Senate, I will be evaluating ways to encourage market entry by U.S. vessel operators into the Nation's domestic trade to ease landside congestion as part of Secretary Mineta's MTS initiative.

*Question 7a.* The U.S. Maritime Administration (MARAD) has a statutorily mandated deadline for the disposal of obsolete National Defense Reserve Fleet (NDRF) vessels. MARAD currently has 114 vessels awaiting disposal, of which 91 are targeted for scrapping, many of which pose an environmental hazard to the waterways in which they are now moored. What is it going to cost the federal taxpayer to dispose of these obsolete vessels?

Answer. MARAD believes the cost projections for conventional, domestic ship dismantling that were provided in the *Report on the Program for Disposing of Obsolete Vessels* (Report to Congress) are still valid. That Report was provided to the Congress, June 5, 2001 pursuant to Section 3502 of the Appendix to Public Law 106-198, The National Defense Authorization Act of 2001. MARAD estimated an average cost of \$2.5 million per ship. Based on these projections the total cost for disposing of 122 vessels domestically through conventional scrapping methods is \$305 million.

MARAD has commenced evaluating proposals submitted by industry through a Program Research & Development Announcement (PRDA), which was posted October 19, 2001. That announcement invited industry to propose innovative long-term solutions for the backlog of obsolete NDRF vessels. The costs of ship disposal options identified by industry will not be known until the evaluation of the proposals is completed. If confirmed, I will give full attention to these proposals.

MARAD is also investigating alternatives to domestic scrapping that have the potential to be more cost-effective, such as artificial reefing of vessels. I understand that the Navy and the EPA are currently engaged in studies on the long-term effects of artificial reefs on the environment. Favorable results would allow MARAD to work with EPA to develop national standards for preparing ships for reefing. Such standards would allow MARAD to develop reasonable cost estimates for a reefing program. MARAD and the Department of Transportation could then recommend appropriate changes to existing legislation to promote artificial reefing initiatives, if judged to be a best value disposal method for the Government.

*Question 7b.* How long will it take MARAD to rid our nation's waterways of these vessels?

Answer. MARAD's schedule for disposal of 155 obsolete ships by September 30, 2006, as outlined in the *Report to Congress*, was for 7 vessels in FY '01, 8 in FY '02, and 35 for each FY '03-06. This schedule was based on the expectation that the disposal method would be predominately procurement of domestic scrapping services, with 15 vessels disposed of as artificial reefs or through donations. MARAD met its FY '01 goal with contracts for the disposal of 7 vessels in FY '01. The Conference Report on HR 2500 included no funding in FY '02 for disposal of NDRF obsolete ships. MARAD will continue to vigorously pursue the disposal of obsolete ships on a "cost recovery basis". If confirmed, I will work to identify feasible and cost effective ship disposal alternatives.

*Question 8a.* In the 1970s, there were 30 domestic ship-scrapping companies. Today, MARAD considers only four companies to be viable, and concerns have been expressed regarding those. Does MARAD have the tools and personnel required to meet its statutory obligation to dispose of these vessels in a safe and cost effective manner?

Answer. I have first hand experience scrapping vessels which will be useful in formulating an action plan to dispose of the NDRF obsolete ships in a safe and cost effective manner. In addition, MARAD appears to have the adequate personnel required to dispose of our obsolete ships. For FY '02 and beyond, MARAD will utilize a core team of industry-experienced professionals to manage the ship disposal program. MARAD also appears to have the acquisition tools necessary to apply to the disposal problem. They have employed Invitations for Bid (IFB), Requests for Proposal (RFP), Simplified Acquisitions, and Program Research & Development Announcements (PRDA), as appropriate, to facilitate consideration of vessel disposal alternatives.

*Question 8b.* What actions would you direct MARAD to take in order to draw additional companies to the ship scrapping industry and reduce disposal costs for the American taxpayer?

Answer. Based upon recent solicitations, we have already seen the emergence of new entities, into the ship disposal market. In addition, entities that in the past have failed to meet MARAD requirements have made improvements to their scrapping processes. In addition, the Program Research & Development Announcement (PRDA), referred to in Question #7 above, is an excellent step to draw additional companies into ship disposal efforts and to reduce costs. This announcement invites industry to propose innovative long-term solutions that address financing, production methods and applied technology in the context of affordable and safe disposal alternatives. Evaluation of the PRDA proposals will determine if there are innovative, cost-effective strategies to pursue.

In addition, MARAD is currently working with the EPA to discuss the potential for renewed foreign disposal of its ships. MARAD is also planning to conduct a feasibility study of government-owned, contractor-operated (GOCO) disposal/recycling facilities as a potential cost-effective vessel disposal option. Moreover, MARAD is evaluating responses to a draft FY '02 RFP for ship disposal contracts. If confirmed, I will keep these good initiatives going with a focus on what existing industry has

to offer in order to attract new companies with innovative and more cost-effective solutions.

*Question 9a.* Over the past two years, the United States and China have been negotiating a new bilateral maritime agreement. Representatives from the U.S. and their Chinese counterparts recently met in Beijing, and the Chinese subsequently have expressed an interest in moving forward with negotiations. What are your views regarding bilateral maritime agreements?

*Answer.* Over the years, the Maritime Administration has successfully negotiated a number of bilateral maritime agreements with such countries as Russia, Brazil and Venezuela. If negotiated properly, bilateral maritime agreements are useful devices for promoting reciprocity in the carriage of trade between the two countries, and potentially increasing trade itself. These agreements have generally helped to open up opportunities for U.S. carriers while at the same time increasing competition in the trade. For example, the U.S./Venezuela maritime equal access agreement was successful in increasing service in the trade and lowering the transportation cost to the U.S. exporter. In addition, bilateral maritime agreements should be used to encourage the elimination of discriminatory practices in a particular trade.

*Question 9b.* What should be done to ensure that our nation's maritime industry does not continue to be subjected to needless discriminatory practices because we can't reach agreements on maritime with our trading partners?

*Answer.* Our nation should always be vigilant to remove needless discriminatory and predatory practices sponsored by our trading partners. Unfortunately, over the years we have had a plethora of difficulties involving discriminatory practices with various trading partners. With respect to China, where U.S. carriers' operations are significantly burdened by government restrictions, a new agreement would help to ensure that such restrictions are eliminated. The overriding objective is to achieve removal of restrictions on U.S. carriers' activities in China and any other trading partner that does not respect the spirit of reciprocity. Over the years, executive branch agencies working in parallel with the Federal Maritime Commission (FMC), have achieved removal of restrictions that U.S. carrier's faced in foreign markets. If good faith bilateral negotiations fail to remove restrictive trading practices, then I believe FMC sanctions would be appropriate.

*Question 9c.* Will you commit to reaching a bilateral maritime agreement with China by scheduling high-level talks on the matter soon after being confirmed?

*Answer.* If confirmed by the Senate, I will make it a priority to initiate high level bilateral maritime talks with China.

*Question 10.* Earlier this year, the U.S. Customs Service issued new rules governing repairs to U.S.-flagged vessels that altered its treatment of "spare parts." The new regulations make the purchase for or repairs made to US-flag vessels by crew members when they are outside the United States, including maintenance and repair while these vessels are on the high seas by the crew, subject to declaration, entry and payment of a 50 percent ad valorem duty. Moreover, equipment imported into the United States and duty paid thereon will now also be subject to an additional ad valorem duty if the item is installed while underway and not installed in the United States. How do you view these new rules and what is the competitive impact on U.S.-flagged vessels? Would you support repeal of these new rules?

*Answer.* The U.S. Customs Service published a Final Rule last March regarding revisions to the Vessel Repair Statute. The Final Rule makes virtually all supplies and parts used in routine repairs and preventative maintenance performed by American crew members subject to the 50% ad valorem duty. The US maritime industry found this rule to be a radical departure from previous Customs policy and contrary to the spirit and intent of Congress. In response to the new rule, over 40 US-flag interest filed a protest petition in July 2001, requesting the repeal of the new rule. The industry rightly believes that the new rule severely penalizes the US-flag carriers and provides an even greater advantage to foreign-flag carriers which are not subject to such arbitrary duties and regulatory burdens. In addition, the new rule also discourages new US-flag tonnage from entering the market. In recent weeks, the Deputy Secretary of Transportation has written to the Deputy Secretary of the Treasury requesting Customs to reconsider this rule. In view of the above, I fully support this position, and if confirmed, will meet with the new Commissioner of Customs to discuss the expeditious resolution of this matter.